

House Tax Policy Committee
November 7, 2007
Testimony of Michael W. Peters, President
Michigan Electric Cooperative Association
And
Tony Anderson, General Manager
Cherryland Electric Cooperative

Good morning Chairman Bieda, and members of the committee. I want to thank you for the opportunity to address you regarding the recently adopted services tax. I am Mike Peters with the Michigan Electric Cooperative Association (MECA). With me today is Tony Anderson, General Manager, Cherryland Electric Cooperative. MECA is the statewide trade association representing the interests of Michigan's electric cooperatives¹. MECA's membership consists of nine distribution cooperatives, one cooperative whose members are all choice customers under P.A. 141, and one generation and transmission cooperative, Wolverine Power Cooperative. Collectively, the electric cooperatives provide retail electric service to over 325,000 homes, farms and businesses located in 59 of Michigan's 83 counties,² however, due to the fact that cooperatives serve a considerable number of seasonal homes and cottages, we actually have cooperative members in every county of the state. Electric cooperatives are not-for-profit,

¹ MECA's membership consists of the following: Alger Delta Cooperative Electric Association, Cherryland Electric Cooperative, Cloverland Electric Cooperative, Great Lakes Energy Cooperative, HomeWorks Tri-County Electric Cooperative, Midwest Energy Cooperative, The Ontonagon County Rural Electrification Association, Presque Isle Electric & Gas Co-op, Thumb Electric Cooperative, Wolverine Power Marketing Cooperative, and Wolverine Power Supply Cooperative, Inc.

² The distribution cooperatives maintain over 37,500 miles of line to serve approximately 325,000 meters. This results in an average of approximately eight customers per mile of line. This compares to approximately 35 customers per mile for the average investor-owned utility and over 90 customers per mile for some municipal systems. As for annual kWh sales per mile of line, the distribution cooperatives average 60,500; the IOUs approximately 725,000; and some municipals top the scale at 1,950,000 kWh per mile per year. Approximately 95% of cooperative customers are residential. Several cooperatives serve a considerable number of seasonal homes and cottages where annual usage is low, but maintenance and the annual cost to serve may be higher.

member-owned and controlled utilities governed by boards of directors elected from the membership.

The recently enacted services tax was supposed to apply to “discretionary” services. As you have been hearing from affected businesses, the reality is that many of the affected services are not “discretionary.” For the electric cooperatives, the services tax will apply to right of way maintenance and to business and environmental consultants.

I would like to address the impact the service tax on consulting service will have on the cooperatives and Mr. Anderson will address the impact the service tax on “landscaping” will have on the cooperatives.

Electric cooperatives regularly engage consultants to assist with business management issues, including engineering work, utility rate work and business practices. Additionally, Wolverine Power Cooperative is currently in the process of developing a new base load clean coal generating plant in Rogers City, Michigan. As part of the development and design stage Wolverine has and will continue to use many engineering and environmental consultants. The cost of engineering and environmental consultants run into the tens of millions of dollars and these are not discretionary services that the Wolverine can choose not to purchase nor is it possible to perform these same services “in-house” and avoid the additional tax. The only recourse is ultimately higher electric rates to recover the increase costs.

I would now like to have Mr. Anderson address the issue of right of way maintenance.

(Mr. Anderson)

Mr. Chairman and members of the committee, thank you for the opportunity to address you today.

Section 3d(1)g of the new service tax extends the tax to “Landscaping services, as described in NAICS industry code 56173.” The NAICS definition of “landscaping services” references 37 types of services under the broader description of “landscaping services.” These include services that I am sure we would all expect to fall under such a description, such as laying sod, planting trees, and mowing grass. The list of service under the NAICS description of landscaping, however, also includes “right of maintenance service” and “tree and brush trimming, overhead utility line.”

The electric cooperatives must maintain the right of way for over 35,000 miles of electric distribution lines and 1,500 miles of transmission line. Because of the seasonal nature of such work the most cost effective way to maintain the right of way is by contracting with companies that specialize in utility right of way maintenance. Collectively, the electric cooperatives spend between \$10 million to \$15 million per year on right of maintenance contracts. The average cost per mile of line for right of way maintenance is approximately \$1,500 to \$2,000 per mile of line. Based on our current annual expenditures, the services tax will cost the electric cooperatives and our members between \$600,000 and \$900,000 per year. For the cooperatives the choice is clear-- either raise electric rates to cover the additional cost, or reduce the miles or right of way we maintain on an annual basis.

Some that are not knowledgeable about utility operations would “solve” the problem by simply pushing off right of way maintenance to save costs. Over the short term, such an action will not have an immediate impact. However, over the long term failing to adequately maintain

utility right of way results in higher lines loss, lower reliability to member-consumers and more weather related outages. From the consumers' perspective, these are not acceptable outcomes.

We understand the difficulties the legislature faced when you adopted the services tax. However, we also understand that the services tax was adopted with little to no input from business, and definitely without a full understanding of the types of services that fell under the new tax. We support the modification of the services tax and would encourage the legislature to exempt utility right of way maintenance.

Thank you for the opportunity to testify and we would be happy to answer any questions you may have.